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Director of Health

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17 July 2009

Kenneth H. Belcher, President and CEO
CharterCARE Health Partners, Roger Williams Hospital
and Elmhurst Extended Care Facilities, Inc.
825 Chalkstone Avenue
Providence, RI 02908

John Fogarty, President and CEO
St. Joseph Health Services of Rhode Island
200 High Service Avenue
North Providence, RI 02904

Dear Messrs Belcher and Fogarty:

Attached is the final Report of the Health Services Council on the Applications of CharterCARE Health Partners for Changes in Effective Control of: St. Joseph Health Services of Rhode Island, Roger Williams Hospital and Elmhurst Extended Care Facilities, Inc. that was amended and adopted by the Health Services Council on 30 June 2009.

The Rhode Island Department of Health accepts the recommendation of the Health Services Council and hereby approves the applications and adopts the attached Report with the following conditions of approval incorporated in this decision, which supercede those conditions of approval in section VI of the Report:

1. that SJHSRI, RWH and all affiliates provide services to all patients without discrimination including payment source or ability to pay;

2. CCHP, SJHSRI, RWH shall implement the application as approved;

3. that data, including but not limited to finances, utilization and demographic patient information be furnished to the state agency upon request;

4. CCHP shall provide to the Department the following reports informing the Department of updates to the affiliation's implementation plans and progress:

    a. by thirty (30) days after implementation of the affiliation, an updated Comprehensive Strategic Plan that includes updated assumptions used in the strategic plan;

b. by sixty (60) days after implementation of the affiliation, specific timelines for implementing operational, clinical and financial objectives;
c. by ninety (90) days after implementation of the affiliation, a detailed plan for integration and consolidation of services and operations over the first three years, including plans for:
    i. implementation of Centers of Excellence; and
    ii. clinical integration/consolidation in areas of redundancy or with excess capacity.

5. that services at the facilities be provided in conformance with the requirements of the Rules and Regulations for Licensing of Hospitals (R23-17-HOSP) and Rules and Regulations Pertaining to Hospital Conversions (R23-17.14-HCA);

6. By one year following the implementation of the affiliation, RWMC and SJHSRI shall adopt joint policies and procedures for physician credentialing and for authorizing admitting privileges to the hospitals. Such policies and procedures shall be submitted to the Department;

7. By two years following the implementation of the affiliation, all physicians on staff at either hospital shall have joint credentials at both hospitals. Attestation of such shall be submitted to the Department;

8. By ninety (90) days following the implementation of the affiliation, a fully detailed plan, including timelines, for the $15M in savings, as projected in the application. Reports shall be provided to the Department on a quarterly basis identifying achieved savings;

9. that the facilities will work with the Department of Human Services, payors, and physicians in health centers, in private practices and hospitals, to develop and implement strategies aimed at mitigating over-utilization of the Emergency Department and identify opportunities for improvement by creating and reviewing reports of ED data; and that the facilities will work with the Department of Human Services and participate in any initiatives as requested by Department of Human Services, related to Emergency Department diversion;

10. that the facilities develop and implement one centralized intake system for both hospitals to access a continuum of services ranging from inpatient psychiatric care of adult, geriatric and co-occurring treatment, to inpatient detox within one year of licensure;

11. that both hospitals are to take psychiatric admissions from all other referral sources and hospitals and not close off psychiatric admissions after 4:00 p.m. weekdays, weekends or holidays, to protect interests of saving beds for clients who may enter their hospital emergency rooms. This requirement will not apply in situations when applicants in their reasonable judgment deem patient safety or risk warrants alternative steps;

12. that Elmhurst Extended Care Facilities, Inc. provide, through administrative and operational policies and procedures, individualized and resident-centered care, services, and accommodations, and a sense of peace, safety, and community; and that the facility maintain Eden Alternative Certification or such other equivalency acceptable to the Department of Health;

13. that the Elmhurst Extended Care Facilities, Inc. will work in good faith with residents to establish an alternative payor source when another payor source is no longer available. Further, that the facility will not withhold or discontinue care or discharge the patient while an application for an alternative payer source (such as Medicaid) is pending; and

14. that services at Elmhurst Extended Care Facilities, Inc. be provided in conformance with the requirements of the Rules and Regulations for Licensing of Nursing Facilities (R23-17-NF);

Approval and implementation of these applications will result in (1) the termination of the existing hospital license issued to St. Joseph Health Services of Rhode Island and the issuance of a new hospital license to St. Joseph Health Services of Rhode Island whose Class A member is CharterCARE Health Partners and whose Class B member is the Bishop of Diocese of Providence; (2) the termination of the existing hospital license issued to Roger Williams Hospital and the issuance of a new hospital license to Roger Williams Medical Center (provided the name change from Roger Williams Hospital has been effectuated) whose sole member is CharterCARE Health Partners, otherwise, to Roger Williams Hospital (provided the name change from Roger Williams Hospital has not been effectuated) whose sole member is CharterCARE Health Partners; and (3) the termination of the existing nursing facility license issued to Elmhurst Extended Care Facilities, Inc. and the issuance of a new nursing facility license to Elmhurst Extended Care Facilities, Inc. whose sole member is CharterCARE Health Partners.

Sincerely,

David R. Gifford, MD, MPH
Director of Health

Attachment

REPORT OF THE

HEALTH SERVICES COUNCIL

ON THE APPLICATIONS OF

CHARTERCARE HEALTH PARTNERS

FOR CHANGES IN EFFECTIVE CONTROL OF:

ST. JOSEPH HEALTH SERVICES OF RHODE ISLAND,

ROGER WILLIAMS HOSPITAL AND

ELMHURST EXTENDED CARE FACILITIES, INC.

Submitted to the
Health Services Council
30 June 2009

Amended and Adopted by the
Health Services Council
30 June 2009

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I. SYNOPSIS

Project Review Committee-I of the Health Services Council recommends that the applications of CharterCARE Health Partners for changes in effective control of St. Joseph Health Services of Rhode Island, Roger Williams Hospital and Elmhurst Extended Care Facilities, Inc. be approved.

II. PROPOSAL DESCRIPTION

The instant proposal is an affiliation between St. Joseph Health Services of Rhode Island, Roger Williams Hospital[1], and Elmhurst Extended Care Facilities, Inc. under a new parent entity CharterCARE Health Partners ("CharterCARE") (see attached pre and post ownership charts). Each of the facilities will maintain their individual licenses after the affiliation is implemented. As described by the applicant, the proposed affiliation initially would be limited to administrative consolidation and clinical coordination and cooperation.

Roger Williams Hospital ("RWH") is a non-profit hospital located in Providence. RWH is a teaching hospital affiliated with Boston University. Roger Williams Medical Center (an affiliate of RWH) presently is the parent entity of Elmhurst Extended Care Facilities, Inc., ("EEC") a licensed nursing facility (since 1986). EEC is the only Eden Alternative certified nursing facility in Rhode Island (since 2003). Eden Alternative is a philosophy of elder care that focuses on individual choice and meaningful experiences for residents.

St. Joseph Health Services of Rhode Island ("SJHSRI") is non-profit healthcare delivery system that operates St. Joseph Our Lady of Fatima Hospital in North Providence and St. Joseph Hospital for Specialty Care in Providence (the "Providence Unit").

CharterCARE will have a fifteen member Board of Trustees. The initial Board shall consist of eight trustee designated by the Bishop of the Diocese of Providence and seven trustees designated by the Board of Trustees of RWH. The initial CharterCARE leadership has been identified as follows:

Chair of the Board of Trustees- Edwin Santos (presently Chair of Board of Trustees of RWH)
Vice Chair of the Board of Trustees- Monsignor Paul Theroux (presently Vice Chair of Board of Trustees of SJHSRI)
President/CEO- Kenneth H. Belcher (presently CEO of RWH)
Executive Vice President/COO- John M. Fogarty (presently CEO of SJHSRI)

The applicant stated that Kenneth Belcher would hold two offices after the affiliation: CEO of CharterCARE and CEO of RWH. The applicant stated that John Fogarty would hold two offices after the affiliation: Executive Vice President and COO of CharterCARE and CEO of SJHSRI. The applicant stated that CharterCARE will employ a Chief Medical Officer and that, with the exception of the CMO, other leadership positions will be funded/created from existing executive positions from internal/external selection (see attached chart).

[1] As part of the proposal, Roger Williams Medical Center shall merge into RWH, and RWH will change its name to Roger Williams Medical Center.

With respect to Emergency Departments, because of extensive volume, CharterCARE does not plan to consolidate its emergency departments into one centralized location, but rather coordinate the services offered at both through clinical integration. It proposes coordination to one centralized physician management service, clinical coordination and centralized oversight.

The applicants stated that they were committed to maintain key acute care services (emergency department, operating suites, etc.) at both hospitals to preserve appropriate access.

Both hospitals listed an array of primary care services which they provide and stated that under CharterCARE the primary care initiatives, which have been established over the years at both SJHSRI and RWH will continue to take place and will be strengthened as the affiliation comes to fruition. SJHSRI noted that its clinics in its Providence Unit see in excess of 50,000 visits per year. The applicant confirmed that no primary care services will be eliminated as a result of the proposed affiliation. Specifically, the applicant committed to maintaining the scope and level of primary care services at the SJHSRI Providence unit in South Providence and that, if the Providence Unit were sold the hospital will either lease back space in the building to provide its clinic services or locate an alternative site in South Providence to provide its clinic services.

III. INTRODUCTION

Pursuant to the requirements of Chapter 23-17 of the General Laws of Rhode Island entitled "Licensing of Health Care Facilities," the applicant filed for changes in effective control of the subject-licensed facilities. This request is made because the statute requires that any proposed change in owner, operator or lessee of a licensed health care facility be reviewed by the Health Services Council and approved by the state-licensing agency prior to implementation.

CharterCARE submitted the application for changes in effective control of RWH and SJHSRI on 11 May 2009 and for a change in effective control of EEC on 13 May 2009. Staff reviewed the applications, found them to be acceptable in form, and notified the applicants and the general public by a notice on the Department's website and via direct mail and e-mail to interested persons that the review would commence on 15 May 2009. The notice also advised that all persons wishing to comment on the application submit their comments to the state agency by 15 June 2009, when practicable. Advisories were received from Office of Facilities Regulation ("OFR"), Department of Mental Health, Retardation & Hospital ("MHRH") and Blue Cross Blue Shield of Rhode Island ("BCBSRI") (attached). A letter of support was received from United Nurses & Allied Professionals ("UNAP") (attached).

The Project Review Committee assigned to review this proposal met on 19 May 2009, 2 June 2009, 11 June 2009, 16 June 2009 and 23 June 2009 with the applicant and its legal counsels in attendance at each meeting. The meeting of 11 June 2009 was advertised in the Providence Journal as being held to provide an opportunity for the public to comment on the proposal. The full Health Services Council reviewed these applications at its meeting of 30 June 2009 with the applicant and legal counsels in attendance.

The Committee was also aware of the hospital conversion reviews of RWH and SJHSRI being conducted by the Department of Health and the Department of Attorney General, pursuant to the requirements of RIGL 23-17.14 (The Hospital Conversions Act).

At the meeting of 19 May 2009, Mr. Belcher, President of RWH, Ed Santos, Chairman of the Board of Trustees of RWH, Mr. Fogarty, President of SJHSRI and Monsignor Paul Theroux, Vice Chair of Board of Trustees of SJHSRI) presented the application via a "power point" presentation which became part of the record. It was noted that the proposed affiliation would initially be limited to administrative consolidation and clinical coordination and cooperation.

At the meeting of 2 June 2009, the applicant presented its responses to follow up questions of the Committee. The applicant discussed the components of the projected $15 million in savings from affiliation and that the $15 million is approximately 4%-5% of the combined operating budgets of both hospitals. To Council member Lapierre's inquiry, Mr. Belcher and Mr. Fogarty noted their agreements to working with DHS to mitigate over-utilization of their Emergency Departments.

At the meeting of 11 June 2009, the applicant presented the proposal to the public. Council member Sen. Graziano noted her concern regarding the lack of participation of the nursing staff in the affiliation process. Rick Brooks, Director of UNAP stated that UNAP is in discussions with the hospital and will be updating the Committee on the progress of those negotiations. There were no other public comments at the meeting.

At the meeting of 16 June 2009, the applicant responded to the recommendations in the advisories of MHRH and BCBSRI and presented its responses to the follow up questions of the Committee. The Committee discussed potential conditions of approval (some of which were derived from the MHRH and BCBSRI written advisories) and requested that staff prepare a list of all of the draft conditions of approval for Committee's review at the next meeting. At this meeting, Rick Brooks, Director of UNAP stated that UNAP is in general support of collaboration versus competition. He noted that it UNAP has reached an agreement in principle with the hospitals and that he will keep the Committee updated. He noted UNAP's support of the proposal and, subsequently on 19 June 2009, UNAP submitted a letter of support (attached).

At the 23 June 2009 meeting, the Chief of the Department's OFR presented a summary of the licensure and certification track record of the three subject facilities. At this meeting, the Committee reviewed the draft conditions of approval in great detail and there was considerable discussion of the revisions to the draft conditions that had been proposed by the applicant. At this meeting, the Committee voted five in favor, none opposed and one recusal (5-0-1) to recommend that the applications be approved subject to the conditions of approval contained in section VI of this report.

At the meeting of the full Health Services Council on 30 June 2009, Mr. Fogarty discussed a memorandum dated 24 June 2009 (attached) that was prepared by SJHSRI in response to the OFR advisory. At this meeting the applicant discussed its revised financial projections that were submitted to the full Health Services Council on 29 June 2009 (attached). At this meeting the Chairman observed that although he supports the applications, he is still not totally convinced that this affiliation will solve all of the financial problems of both institutions but it is a step in the right direction. At this meeting the Chairman suggested that condition of approval number 4 be amended to require that the applicant provide its reports in a form acceptable to the state agency and that a new condition be placed on an approval stating that the recommendation of the Health Services Council is based upon the established record; and that the Health Services Council reserves the right to reconsider its recommendation on any remand back to the Health Services Council from the Director of Health. At this meeting, the full

Health Services Council voted twelve in favor, none opposed and three recusals (12-0-3) to recommend that the applications be approved subject to the conditions of approval contained in section VI of this report and including the amendments suggested by the Chairman at the meeting.

IV. FINDINGS

Section 23-17-14.3 of the licensing statute and section 4.5 of the Rules and Regulations for Licensing of Hospitals (R23-17 HOSP) requires the Health Services Council to consider specific review criteria in formulating a recommendation for a change in effective control. The applicants addressed relevant considerations referred to in these review criteria.

The Committee's comments and findings on each of the criteria follow:

A. The character, competence, commitment, and standing in the community of the proposed owners, operators or directors of the health care facility.

The instant proposal is an affiliation between SJHSRI, RWH, and EEC under a new parent entity CharterCARE (see attached pre and post ownership charts). Each of the facilities will maintain their individual licenses after the affiliation is implemented.

As noted in section II of this report, CharterCARE will have a fifteen member Board of Trustees. The initial Board shall consist of eight trustees designated by the Bishop of the Diocese of Providence and seven trustees designated by the Board of Trustees of RWH. The initial CharterCARE leadership has been identified as follows:

Chair of the Board of Trustees- Edwin Santos (presently Chair of Board of Trustees of RWH)
Vice Chair of the Board of Trustees- Monsignor Paul Theroux (presently Vice Chair of Board of Trustees of SJHSRI)
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The applicant stated that Kenneth Belcher would hold two offices after the affiliation: CEO of CharterCARE and CEO of RWH. The applicant stated that John Fogarty would hold two offices after the affiliation: Executive Vice President and COO of CharterCARE and CEO of SJHSRI. The applicant stated that CharterCARE will employ a Chief Medical Officer and that, with the exception of the CMO, other leadership positions will be funded/created from existing executive positions from internal/external selection (see attached chart).

Office of Facilities Regulation Advisory

On 22 June 2009, the Office of Facilities Regulation submitted an advisory (attached) summarizing the survey processes (annual, unannounced visits, complaint investigations, etc.) and the track records of RWH, SJHSRI, and EEC. With regards to SJHSRI, the advisory noted a pattern of issues and failures in communication systems and implementations of policies and procedures which resulted in several incidences of state citations and licensure compliance actions and consent agreement with the hospital. The advisory recommended that *"this*

association between St. Joseph and Roger Williams require a focused attention on an assessment of the hospitals communication culture and implementation of psychiatric services policies and procedures." At the 23 June 2009 meeting, the Chief of OFR presented a summary of the advisory to the Committee.

The Committee noted that Richard Gamache, Vice President and Administrator of EEC, was named "distinguished administrator" of the year by the American College of Health Care Administration in 2009 and that EEC is the sole nursing facility in the state that incorporates the Eden Alternative which is a type of culture change. Mr. Gamache is an Eden Mentor and is one of 50 Eden Educators worldwide (see attached news article).

The Committee took note of the oral presentation made by the applicant, the documents filed by the applicant and the material presented in the "power point" document which was further elaborated on, as well as all responses to questions by the Committee.

Finding: The Committee finds that the applicant satisfies this criterion at the time, place and circumstances as proposed.

B. The extent to which the facility will provide, without material effect on its viability, safe and adequate treatment for those individuals receiving the facility's services.

If the proposal is implemented, the applicant projects saving $15 million during the first five years of the affiliation through administrative consolidation ($7 million) and clinical cooperation ($8 million). (Note that EEC is not included in the projected savings.) The table below breaks out the projected savings by year, over the first five years:

Year	Savings Per Year
1	$4.1 million
2	$4.2 million
3	$4.2 million
4	$2.0 million
5	$0.5 million
Total Savings	$15.0 million

The table below identified actual and projected (2009) gains/(losses) from operations for RWH and SJHSRI since FY 2005:

Fiscal Year	RWH	SJHSRI	Combined
Actual			
2005	$ 107,683	$ 1,132,255	$ 1,239,938
2006	$ (768,271)	$ (550,326)	$ (1,318,597)
2007	$ (386,449)	$ (2,402,162)	$ (2,788,611)
2008	$ 622,373	$ (9,240,743)	$ (8,618,370)
PY 2009 (October to April)	$ (1,112,636)	$ (3,988,313)	$ (5,100,949)
Total from 2005-2009	**$ (1,537,300)**	**$ (15,049,289)**	**$ (16,586,589)**
Projected			

2009	$ (1,759,052)	$ (3,501,404)	$ (5,260,456)

The table below identifies the endowment value for RWH and SJHSRI since FY 2005:

RWH				
Year	Total	% change	Restricted	Unrestricted
FY 2006	$ 40,521,693		$ 23,021,563	$ 17,500,130
FY 2007	$ 43,100,088	6%	$ 23,855,432	$ 19,244,656
FY 2008	$ 39,644,026	-8%	$ 23,902,271	$ 15,741,755
April-2009	$ 34,842,971	-12%	$ 23,276,788	$ 11,566,183
From FY 2006 to April 2009		**-14%**		

SJHSRI				
Year	Total	% change	Restricted	Unrestricted
FY 2006	$ 44,587,852		$ 9,129,485	$ 35,458,367
FY 2007	$ 39,579,360	-11%	$ 10,077,951	$ 29,501,409
FY 2008	$ 10,890,545	-72%	$ 9,460,609	$ 1,429,936
April-2009	$ 6,670,382	-39%	$ 9,156,589	$ (2,486,207)
From FY 2006 to April 2009		**-85%**		

The table below identifies the actual operating performance of EEC since FY 2006:

Year	Income/(loss) from operations
FY 2006	$ (386,928)
FY 2007	$ 331,490
FY 2008	$ (161,365)
April-2009	$ 240,339

The Committee was concerned with the actual recent and projected (FY 2009) financial experiences of the two hospitals and requested financial projections for the first five years after the affiliation is implemented (2010-2014). The applicant provided three projections using two percent (2%), one percent (1%) and zero percent (0%) annual volume growth assumptions (from year-to-year). As can be seen in the table below, utilizing a two percent volume growth projection for each year over the previous year, and incorporating the business plan of efficiencies ($15 million in savings achieved by the end of the fifth year) and estimated one-time costs, CharterCARE is projected to experience net incomes from operations of $5.4 million in 2010 and increasing each year to $15 million by 2014. Alternatively, utilizing a zero percent volume growth projection in each year, and incorporating the business plan of efficiencies ($15 in million savings achieved by end of the fifth year) and estimated one-time costs, CharterCARE is projected to experience its best net income of $2.5 million in 2011 and is projected to experience successive reductions in net income thereafter and has a projected loss from operations in 2014 of ($6.7 million).

2 % Volume Growth					
Loss/Gain from Operations	2010	2011	2012	2013	2014
RWH	$ 744	$ 1,145	$ 898	$ 494	$ (274)
SJHSRI	$ 2,164	$ 2,414	$ 1,925	$ 1,239	$ 330
Subtotal	**$ 2,908**	**$ 3,559**	**$ 2,823**	**$ 1,733**	**$ 56**
Affiliation Impact:					
Business Plan of Efficiencies	$ (4,079)	$ (8,328)	$(12,501)	$(14,457)	$(15,000)
Est One-Time Costs	$ 1,612	$ 405	$ 50	$ 30	$ 30
CharterCARE - Income/Loss from Operations	**$ 5,375**	**$ 11,482**	**$ 15,274**	**$ 16,160**	**$ 15,026**

1% Volume Growth					
Loss/Gain from Operations	2010	2011	2012	2013	2014
RWH	$ (94)	$ (604)	$ (1,824)	$ (3,255)	$ (5,117)
SJHSRI	$ 443	$ (341)	$ (1,927)	$ (3,773)	$ (5,920)
Subtotal	**$ 349**	**$ (945)**	**$ (3,751)**	**$ (7,028)**	**$(11,037)**
Affiliation Impact:					
Business Plan of Efficiencies	$ (4,079)	$ (8,328)	$(12,501)	$(14,457)	$(15,000)
Est One-Time Costs	$ 1,612	$ 405	$ 50	$ 30	$ 30
CharterCARE - Income/Loss from Operations	**$ 2,816**	**$ 6,978**	**$ 8,700**	**$ 7,399**	**$ 3,933**

0% Volume Growth					
Loss/Gain from Operations	2010	2011	2012	2013	2014
RWH	$ (929)	$ (2,334)	$ (4,488)	$ (6,896)	$ (9,767)
SJHSRI	$ (1,271)	$ (3,054)	$ (5,680)	$ (8,602)	$(11,867)
Subtotal	**$ (2,200)**	**$ (5,388)**	**$(10,168)**	**$(15,498)**	**$(21,634)**
Affiliation Impact:					
Business Plan of Efficiencies	$ (4,079)	$ (8,328)	$(12,501)	$(14,457)	$(15,000)
Est One-Time Costs	$ 1,612	$ 405	$ 50	$ 30	$ 30
CharterCARE - Income/Loss from Operations	**$ 267**	**$ 2,535**	**$ 2,283**	**$ (1,071)**	**$ (6,664)**

On 29 June 2009, the applicant submitted a revised pro-forma based on updated information (see attached and note the table below). Again, utilizing a two percent volume growth projection for each year over the previous year, and incorporating the business plan of efficiencies ($15 million in savings achieved by the end of the fifth year) and estimated one-time costs, CharterCARE is projected to experience net incomes from operations of $8.2 million in 2010 and increasing each year to $24.9 million by 2014. Alternatively, utilizing a

zero percent volume growth projection in each year, and incorporating the business plan of efficiencies ($15 in million savings achieved by end of the fifth year) and estimated one-time costs, CharterCARE is projected to experience its best net income of $10.2 million in 2012 and is projected to experience successive reductions in net income thereafter and has a projected net income from operations in 2014 of $5.8 million.

2 % Volume Growth						
Loss/Gain from Operations	2009 Baseline	2010	2011	2012	2013	2014
RWH	(1,758)	$ 1,764	$ 2,309	$ 2,484	$ 2,582	$ 2,311
SJHSRI	(3,501)	$ 4,005	$ 5,288	$ 6,097	$ 6,884	$ 7,660
Subtotal	**(5,259)**	**$ 5,769**	**$ 7,597**	**$ 8,581**	**$ 9,466**	**$ 9,971**
Affiliation Impact:						
Business Plan of Efficiencies		$ (4,079)	$ (8,328)	$(12,501)	$(14,457)	$(15,000)
Est One-Time Costs		$ 1,612	$ 405	$ 50	$ 30	$ 30
CharterCARE - Income/Loss from Operations	**(5,259)**	**$ 8,236**	**$ 15,520**	**$ 21,032**	**$ 23,893**	**$ 24,941**

1% Volume Growth						
Loss/Gain from Operations	2009 Baseline	2010	2011	2012	2013	2014
RWH	(1,758)	$ 948	$ 609	$ (155)	$ (1,046)	$ (2,357)
SJHSRI	(3,501)	$ 3,120	$ 3,429	$ 3,201	$ 2,879	$ 2,457
Subtotal	**(5,259)**	**$ 4,068**	**$ 4,038**	**$ 3,046**	**$ 1,833**	**$ 100**
Affiliation Impact:						
Business Plan of Efficiencies		$ (4,079)	$ (8,328)	$(12,501)	$(14,457)	$(15,000)
Est One-Time Costs		$ 1,612	$ 405	$ 50	$ 30	$ 30
CharterCARE - Income/Loss from Operations	**(5,259)**	**$ 6,535**	**$ 11,961**	**$ 15,497**	**$ 16,260**	**$ 15,070**

0% Volume Growth						
Loss/Gain from Operations	2009 Baseline	2010	2011	2012	2013	2014
RWH	(1,758)	$ 276	$ (923)	$ (2,583)	$ (4,409)	$ (6,678)
SJHSRI	(3,501)	$ 2,235	$ 1,594	$ 362	$ (1,013)	$ (2,542)
Subtotal	**(5,259)**	**$ 2,511**	**$ 671**	**$ (2,221)**	**$ (5,422)**	**$ (9,220)**
Affiliation Impact:						
Business Plan of Efficiencies		$ (4,079)	$ (8,328)	$(12,501)	$(14,457)	$(15,000)
Est One-Time Costs		$ 1,612	$ 405	$ 50	$ 30	$ 30
CharterCARE - Income/Loss from Operations	**(5,259)**	**$ 4,978**	**$ 8,594**	**$ 10,230**	**$ 9,005**	**$ 5,750**

BCBSRI Advisory

On 16 June 2009, BCBSRI submitted an advisory regarding the proposal which included the following recommendations as conditions of approval:

1. *Commitment to a minimum savings of $15 million generated from efficiencies outlined in the application. The allocation and timing of the savings per year would be consistent with the timeline commitment presented by the applicants.*

Year	*Savings Per Year*
1	*$4.1 million*
2	*$4.2 million*
3	*$4.2 million*
4	*$2.0 million*
5	*$0.5 million*
Total Savings	*$15.0 million*

2. *Commitment to collaborate with payors in order to institute innovative approaches that improve the coordination and integration of care between patients, hospitals, physicians, and addresses payment reform based on alternative payment methodologies. Such alternative payment methodologies must incorporate performance as a key requirement.*

3. *A semi-annual report from CharterCARE to the Health Services Council that details information on the progress, achievements and plans relating to the following:*
   a. *Centralization and coordination of administrative and support services*
   b. *Clinical services integration, coordination and consolidation*
   c. *Savings achieved from the efficiencies delineated in the application and opportunities for additional savings beyond the original targeted amount*

d. *Confirmation and documentation confirming that no duplication and additional expenses has been incurred relating to the accountabilities, resources and organizational structure between corporate and affiliates*
e. *Confirmation that RWH and SJHSRI have formally pursued arrangements with payors that will improve coordination and integration of care and establish alternative payment methods*

The Committee recognized the input from BCBSRI and recommended that these considerations, with the exception of 3 (e) and, as further amended by the applicant and as reviewed by the Committee at its meeting of 23 June 2009, be made conditions of approval of this application.

Further, according to the information presented during the course of the review, due to the deteriorating economic conditions and other difficulties facing the healthcare industry, both RWH and SJHSRI have had to take action to ensure the short-term financial viability of each respective organization. Some of the actions taken by both RWH and SJHSRI include: greater demands on productivity and adjusting staff where appropriate based on volume changes, deferring spending on discretionary expenses, work-force reductions, compensation adjustments, contract renegotiations with supply vendors (i.e. supply chain initiatives), deferring capital projects, continue to aggressively negotiate third party payor contracts as the expire. RWH estimates savings to date of $1 million and, annualized, $2.3 million from its initiatives. SJHSRI identified approximately $4 million in FY 2009 associated with its initiatives.

According to the applicant, with the proposed affiliation, the institutions will be able to recognize a much greater level of efficiencies collectively versus stand alone institutions through the elimination of duplicative administrative services and through coordination and/or collaboration of clinical services.

The Committee took note of the oral presentation made by the applicant, the documents filed by the applicant and the material presented in the "power point" document which was further elaborated on, as well as all responses to questions by the Committee.

Finding: The Committee finds that the applicants satisfy this criterion at the time, place and circumstances as proposed.

C. The extent to which the facility will provide safe and adequate treatment for individuals receiving the health care facility's services.

In response to Committee questions, the applicants provided a list of policies to be developed by CharterCARE with an emphasis on creating one unified system-wide policy, procedure or protocol. The list included Administrative Policies, Compliance Policies, Finance Policies, Human Resource Policies, Information Systems Policies, Facilities and Equipment Policies, Patient Care Services and Performance Improvement Policies, Procedures and Protocols. The applicants stated that the patient care oriented policies, procedures and protocols will be developed as the two hospitals begin to integrate similar programs existing at both facilities. These policies will look to adopt clinical best practices based upon evidence-based medicine, and with a focus on continuous quality improvement. The hospitals will also look to coordinate

its performance improvement programs to better serve the needs of both institutions --- Universal Protocol Policy, Performance Improvement Program, Clinical Services Programmatic Policies and Procedures. The CharterCARE Behavioral Health Program will be managed and coordinated by CharterCARE under one clinical and administrative structure, including policies, procedures and protocols around evidence based industry best practices.

According to the applicant, within the committee structures of the two organizations under CharterCARE each individual institution will have its own quality and credentialing committee with the objective to have cross credentialing between both organizations. There will be an overall quality and credentialing committee within CharterCARE which will have overall approval of the individual committees within the organizations. The Chairs of the two quality and credentialing committees will sit on CharterCARE 's quality and credentialing committee. The goal would be to have uniform quality and credentialing and policies and procedures and to have physicians cross-credentialed at both organizations.

MHRH Advisory

On 11 June 2009, MHRH submitted an advisory regarding the proposal which included the following recommendations as conditions of approval:

- *One centralized intake for both hospitals to access a continuum of services ranging from inpatient psychiatric care of adult, geriatric and co-occurring treatment, to inpatient detox. The process is not to be phased in; it is to be implemented on the start date of the agreement.*
- *St. Joseph's Hospital mission statement; history of willing to accept the most challenging clients; and partnership with community providers and MHRH for court ordered treatments is to be the clinical philosophy of both hospitals.*
- *Both hospitals are to take admissions from all other referral sources and hospitals and not close off admissions after 4:00 p.m. weekdays, weekends or holidays, to protect interests of savings beds for clients who may enter their hospital emergency rooms. Implementing this practice will assist other hospitals without a psychiatric unit (Memorial, Miriam, South County and Westerly) who are waiting for an open bed.*

The Committee recognized the input from MHRH and recommended that these considerations, as further amended by the applicant and reviewed by the Committee at its meeting of 23 June 2009, be made conditions of approval of this application.

The Committee took note of the oral presentation made by the applicant, the documents filed by the applicant and the material presented in the "power point" document which was further elaborated on, as well as all responses to questions by the Committee.

Finding: The Committee finds that the applicant satisfies this criterion at the time, place and circumstances as proposed.

D. The extent to which the facility will provide appropriate access to traditionally under-served populations.

Pursuant to Rules and Regulations Pertaining to Hospital Conversions (R23-17.14-HCA) hospitals must provide full charity care (i.e., a 100% discount) to patients/guarantors whose annual income is up to and including 200% of the Federal Poverty Levels, taking into consideration family unit size. Hospitals must also provide partial charity care (i.e., a discount less than 100%) to patients/guarantors whose annual income is between 200% and up to and including 300% of the Federal Poverty Levels, taking into consideration family unit size.

The applicants responded to the Committee's questions regarding charity care and uncompensated care. They said that they would continue to provide any and all medically necessary services to patients regardless of their ability to pay and upon affiliation both hospitals will work to adopt a joint charity care policy and form that meets all State and Federal rules and regulations for the provision of charity care.

With regards to EEC, the applicant agreed that the facility work in good faith with residents to establish an alternative payor source when another payor source is no longer available. Further, the applicant agreed that EEC will not withhold or discontinue care or discharge the patient while an application for an alternative payer source (such as Medicaid) is pending.

The Committee took note of the oral presentation made by the applicant, the documents filed by the applicant and the material presented in the "power point" document which was further elaborated on, as well as all responses to questions by the Committee.

Finding: The Committee finds that, based on the evidence presented and representations made by the applicant, the applicant satisfies this criterion at the time, place and circumstances as proposed.

V. RECOMMENDATION

After considering each of the review criteria as required by statute and the representations made by the applicant, the full Health Services Council recommends that these requests for a change in effective control be approved subject to the conditions of approval contained in section VI of this report. Approval and implementation of these applications will result in (1) the termination of the existing hospital license issued to St. Joseph Health Service of Rhode Island and the issuance of a new hospital license to St. Joseph Health Service of Rhode Island whose Class A member is CharterCARE Health Partners and whose Class B member is the Bishop of Diocese of Providence; (2) the termination of the existing hospital license issued to Roger Williams Hospital and the issuance of a new hospital license to Roger Williams Hospital whose sole member is CharterCARE Health Partners; and (3) the termination of the existing nursing facility license issued to Elmhurst Extended Care Facilities, Inc. and the issuance of a new nursing facility license to Elmhurst Extended Care Facilities, Inc. whose sole member is CharterCARE Health Partners. (See attached ownership chart).

VI. CONDITIONS OF APPROVAL

The Committee recommends that approval of the instant application shall be subject to the following conditions and shall apply to the applicant (including all of its subsidiaries), unless otherwise specified:

1. that SJHSRI, RWH and EEC provide services to all patients without discrimination including payment source or ability to pay;

2. that the application be implemented as approved;

3. that data, including but not limited to finances, utilization and demographic patient information be furnished to the state agency upon request;

4. that that CharterCARE provide semi-annual (every six-months) progress reports, in a form acceptable to the state agency, to the Office of Health Systems Development regarding compliance with conditions of approval and on the implementation of the proposal including information on the progress, achievements and plans relating to the following:

    a. Centralization and coordination of administrative and support services
    b. Clinical services integration, coordination and consolidation
    c. Savings achieved from the efficiencies delineated in the application and opportunities for additional savings beyond the original targeted amount
    d. Confirmation and documentation that no duplication has been incurred relating to the organizational structure between SJHSRI, RWH and CharterCARE including staff resources and responsibilities. Efficiencies and savings resulting from this item to be included in 4 C.

5. that there will be an overall quality and credentialing committee within CharterCARE which will have overall approval of the individual quality and credentialing committees of the hospitals and the goal would be to have uniform quality and credentialing and policies and procedures and to provide the physicians an opportunity to be cross credentialed at both hospitals;

6. that the recommendation of the Health Services Council is based upon the established record; and that the Health Services Council reserves the right to reconsider its recommendation on any remand back to the Health Services Council from the Director of Health;

Roger Williams Hospital and St. Joseph Health Services of Rhode Island shall additionally abide by the following conditions of approval:

7. that services at the facilities be provided in conformance with the requirements of the Rules and Regulations for Licensing of Hospitals (R23-17-HOSP) and Rules and Regulations Pertaining to Hospital Conversions (R23-17.14-HCA);

8. that the facilities will work with the Department of Human Services, payors, and physicians in health centers, in private practice and in conjunction with other hospitals, to develop and implement strategies aimed at mitigating over-utilization of the Emergency Department and identify opportunities for improvement by creating and reviewing reports of ED data; and that the

applicant will work with the Department of Human Services and participate in any initiatives of the applicants and other providers, as applicable, as requested by Department of Human Services, related to emergency department diversion

9. that the facilities work to develop an intake system for both hospitals to access a continuum of services ranging from inpatient psychiatric care of adult, geriatric and co-occurring treatment, to inpatient detox. The facilities will work to develop an intake system that reflects their community's needs, facilitates access to service, and is fiscally responsible within two years of licensure.

10. that St. Joseph's Hospital mission statement; history of willing to accept the most challenging client in collaboration with other hospitals and/or providers currently providing this service and partnership with community providers and MHRH for court ordered treatment will be a continued philosophy within the CharterCARE behavioral health service line;

11. that both hospitals are to take admissions from all other referral sources and hospitals and not close off admissions after 4:00 p.m. weekdays, weekends or holidays, to protect interests of saving beds for clients who may enter their hospital emergency rooms. This requirement will not apply in situations when applicants in their reasonable judgment deem patient safety or risk warrants alternative steps.

12. that the facilities maintain commitment to a minimum savings of $15 million generated from efficiencies outlined in the application. The allocation and timing of the savings per year would be generally consistent with the timeline commitment presented by the applicants; provided, however, that the applicants will maintain flexibility on a year-to-year basis regarding the amount of savings per year.

Year	Savings Per Year
1	$4.1 million
2	$4.2 million
3	$4.2 million
4	$2.0 million
5	$0.5 million
Total Savings	$15.0 million

Elmhurst Extended Care Facilities, Inc. shall additionally abide by the following conditions of approval:

13. that the facility provide, through administrative and operational policies and procedures, individualized and resident-centered care, services, and accommodations, and a sense of peace, safety, and community; and that the facility intends to maintain Eden Alternative Certification or will maintain such other equivalent certification acceptable to the Department of Health;

14. that the facility will work in good faith with residents to establish an alternative payor source when another payor source is no longer available. Further, that the facility will not withhold or discontinue care or discharge the patient while an application for an alternative payer source (such as Medicaid) is pending; and

15. that services at the facility be provided in conformance with the requirements of the Rules and Regulations for Licensing of Nursing Facilities (R23-17-NF);